MIDSIZE FARM SUPPLY COOPERATIVES

CHARACTERISTICS AND GROWTH STRATEGY

U.S. DEPARTMENT OF AGRICULTURE
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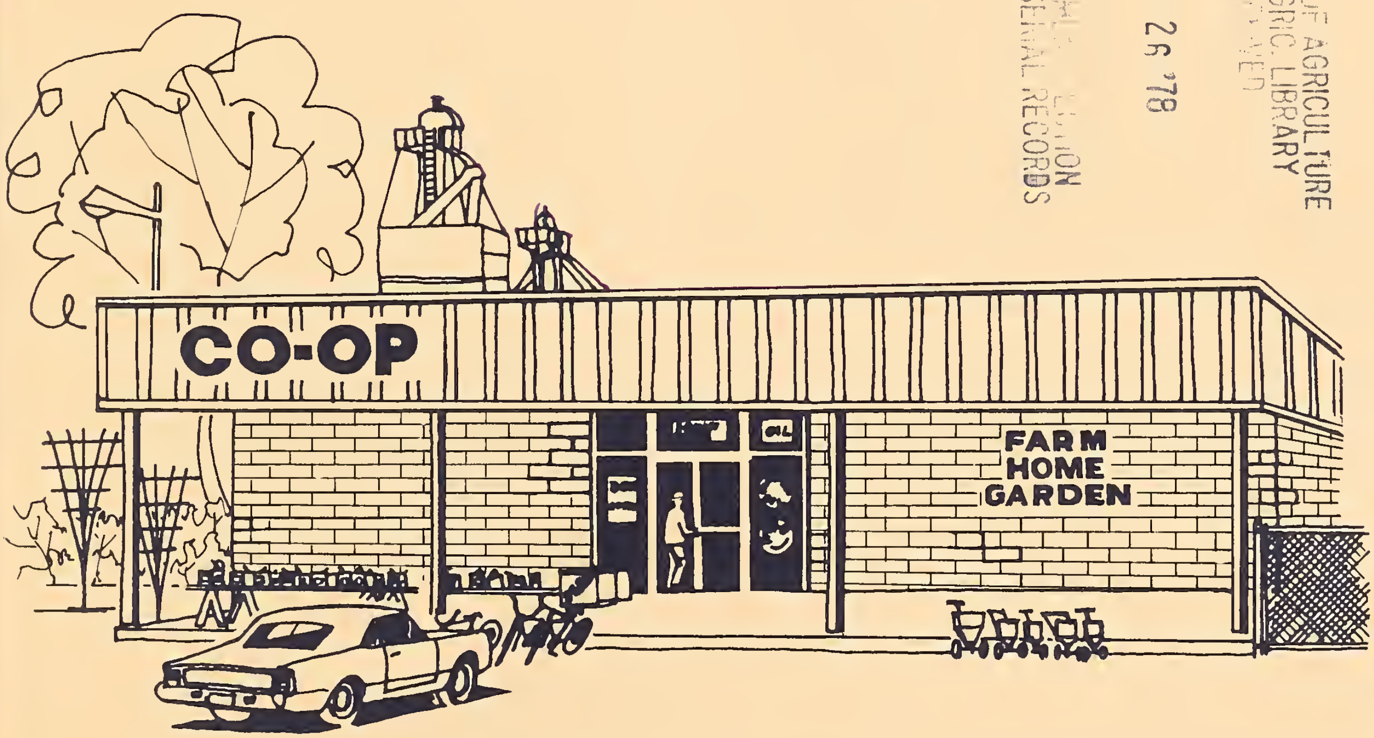

Preface

The purpose of this study was to analyze medium-size local farm supply cooperatives to determine problem areas currently facing these firms and how they have overcome or are meeting them, and to examine opportunities in the next decade.

Also, another objective is to obtain information from the experience of these cooperatives that will aid the small supply cooperatives in determining growth strategies to pursue, types of services and products to handle, and operating and financial policies to follow.

This study was based on a sample of 100 predominantly farm supply cooperatives selected from a list of 558 having sales between $1 million and $5 million worth of supply business in fiscal 1970—the latest year data were available at the time of planning the study (this range would be equivalent to about $1.6 million to $8 million in 1975-76). These 558 firms represented 20 percent of all farm supply cooperatives that year.

One particular thrust of the study was to compare information from three categories of supply cooperatives based on the diversity of product lines handled: (1) specialized, (2) basic, and (3) diversified. For purposes of this study "Class I - specialized" cooperatives generally handled only one major product line such as petroleum, fertilizer, or feed. Some handled more than one product line but most of their sales volume was derived from one line. The "Class II - basic" cooperatives consisted primarily of those handling feed, seed, and fertilizer, and, in some cases, petroleum. "Class III - diversified" cooperatives were those whose product lines went beyond the basic feed, seed, and fertilizer products and into such items as hardware, fencing, animal health products, tires, batteries, farmstead equipment, appliances, lawn and garden supplies, and, in some cases, building materials or farm machinery.

The initial classification of 558 cooperatives indicated a total of 24 Class I - specialized cooperatives, 104 Class II - basic cooperatives, and 430 Class III - diversified cooperatives. From them a sample of 100 cooperatives was selected that consisted of the following: 24 Class I cooperatives, 34 Class II cooperatives, and 42 Class III cooperatives. All of those in Class I were chosen; every third cooperative was chosen from Class II; and every ninth one was chosen from the Class III group. Cooperatives in the last two groups were arrayed from low to high on the basis of sales before making their selection.

Information from the 100 selected cooperatives located across the United States was derived from personal interviews using a structured questionnaire. It contained 33 questions with additional subquestions designed to obtain data on characteristics of the associations plus information in five specific areas: (1) general management, (2) finance, (3) merchandising, (4) physical facilities, and (5) future growth. This information was supplemented with data obtained from a series of management audits conducted as part of a joint Farmer Cooperative Service-Extension Service project to develop teaching methods and materials for training farm supply cooperative managers.

Interviews were conducted late in 1975 and covered operations for fiscal year ended in 1974 or 1975.

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Highlights

One hundred midsize and predominantly farm supply cooperatives increased sales 180 percent during the decade, 1964-74. Average supply sales were $3.4 million in 1974.

Volume increased as diversification of supplies handled increased. From 1964 to 1974, the 42 diversified-line cooperatives' sales increased 221 percent, compared with 182 percent for the 34 cooperatives selling basic supplies and 120 percent for the 24 cooperatives specializing in selling one line of product.

Noticeably fewer cooperatives engaged in long-range planning than did in short-range planning. The study recommends that cooperatives should develop formal 5-year plans to show where they plan to be at the end of 5 years and how they plan to arrive at this point. Only 24 cooperatives had a formal, written set of objectives. All cooperatives should establish goals for current and future markets, sales volume, physical facilities, and products and services offered.

Regularly scheduled meetings attended by all board members and the manager, interspersed with periodic reports on operations, are basic to providing a meaningful two-way flow of information.

The most frequently encountered labor management problem was obtaining qualified personnel, indicating that the training given employees is not as thorough as it should be. Sixty of the 100 cooperatives did not provide written job descriptions for their employees. Written job descriptions should be provided that define each employee's area of responsibility and clearly outline the work to be done. This will avoid confusion, lead to better operations, and give more efficient service to members.

The majority of the cooperatives borrowed funds for operating capital. Although 95 percent of the cooperatives have a formal credit policy, average age of accounts was highest—50 days—for the diversified cooperatives. The study recommends that every effort be made to adhere to 30-day extensions, followed with strict collection practices.

For advertising general farm supplies, the cooperatives preferred radio and newspapers. Other media used, in order of frequency mentioned, were: direct mail, magazines, statement stuffers, TV, and billboards.

The cooperatives have operated at their present locations an average of 33 years; 59 percent have renovated or expanded existing facilities, but only 16 percent have moved to new facilities within the past 5 years. Forty-six percent are now housed in facilities requiring substantial repair or replacement.

Sixty-eight of the cooperatives operate 229 branches—an average of 3.3 per association. In planning future growth, the remaining 32 cooperatives may wish to consider acquisition of branches as one means.

MIDSIZE FARM SUPPLY COOPERATIVES

Characteristics and Growth Strategy

John M. Foschia[1]

Local cooperatives continue to perform an important function in supplying the U.S. farmer with needed agricultural inputs. These organizations supply about 18 percent of total farm supply and equipment inputs, compared with 15 percent a decade ago. For the major or basic supplies—feed, seed, fertilizer, pesticides, and petroleum—cooperatives provide about 24 percent of the total.

Of all cooperative net sales of supplies totaling about $8.7 billion in 1974-75, some 2,700 predominantly farm supply associations distributed about three-fourths and 2,800 supply departments of primarily marketing cooperatives handled the remaining one-fourth.

Characteristics

Many changes have occurred among farm supply cooperatives in recent years. The number has declined, due mainly to mergers and in some cases to urbanization of farming areas; sales have increased as a result of growth and inflation; a wider line of supplies and services has been provided; size of farm patrons has become larger; changes have occurred in farmers' needs; new environmental requirements have been developed; and economic and competitive conditions continue to change.

Most local farm supply cooperatives are small—with about three-fourths having sales under $1 million a year in the early 1970's when this study was first considered. Not many handled more than $5 million annually. Interest therefore was expressed in the medium-size group because the local supply cooperative in the next decade very likely will be of this type and size. Information as to their number, size, services, problem areas, and opportunities should be helpful to all supply cooperatives in assessing industry changes, making needed adjustments in services and operations, and planning for growth.

Farm Supply Sales

The 100 cooperatives had an average supply volume of $3,367,140 in 1974 (table 1). Their volume increased 180 percent or $2.1 million, between 1964 and 1974, compared with 198 percent for the total farm supply volume of all cooperatives in the United States. Most of the increase in the selected cooperatives occurred in the past 5 years.

Ninety percent of the group sold general farm supplies; 82 percent sold farm chemicals (pesticides); 81 percent, fertilizer; 80 percent, petroleum products; 74 percent, feed; and 70 percent sold lawn and garden supplies and equipment (table 2).

As a result of growth and mergers, 88 percent of the cooperatives reported they had increased their share of the overall farm supply business in their trade areas in 1964-74.

A substantial number of cooperatives have increased sales of supplies to non-farmers in areas where suburban developments have extended into farming areas. Thirty

[1]The assistance of William Hand, formerly on the staff of Farmer Cooperative Service, in planning the study and conducting field interviews is acknowledged.

Table 1—Average farm supply and marketing sales, by class of cooperative, selected years.

Year	Class I—specialized		Class II—basic		Class III—diversified		All classes	
	Farm supply sales	Marketing sales	Farm supply sales	Marketing sales	Farm supply sales	Marketing sales	Farm supply sales	Marketing sales
				Dollars				
1964	1,396,793	0	1,147,166	703,317	1,132,560	744,063	1,203,335	730,481
1969	1,930,423	0	1,420,890	1,134,643	1,582,984	1,056,696	1,649,793	1,081,751
1974	3,067,582	0	3,229,465	5,502,640	3,639,932	3,271,277	3,367,140	3,963,769
Increase, 1964-74:								
Amount	1,670,789	0	2,082,299	4,799,323	2,507,372	2,527,214	2,116,805	3,233,288
				Percent				
Percent	119.6	0	181.5	682.4	221.4	339.7	179.8	442.6
				Number				
Number reporting in:								
1964	24	0	34	9	42	18	100	27
1974	24	0	34	10	42	20	100	30

Table 2—Cooperatives selling farm supplies

Product	Class I-specialized	Class II—basic	Class III—diversified	All classes
		Percent		
General supplies[1]	75	88	100	90
Farm chemicals	38	94	98	82
Petroleum products	75	68	93	80
Fertilizer	33	97	100	81
Feed	38	73	95	74
Lawn and garden	29	79	86	70

[1] Hardware, fencing, animal health products, tires, batteries, and appliances.

percent of the 100 cooperatives reported this type of growth, mainly increasing sales of lawn and garden supplies and equipment, pet and riding horse supplies, and small hardware items.

Supply volume increased as the number and variety of farm supplies and equipment increased. Average volume in 1974 was $3.1 million for the specialized cooperatives, $3.2 million for those handling basic items, and $3.6 million for the diversified group (table 1).

The diversified group, however, increased their volume almost twice the percentage of the specialized group from 1965 to 1974. The increase averaged 221 percent for the diversified group, 182 percent for those with basic supplies, and 120 percent for the specialized cooperatives.

Farm Products Marketed

None of the Class I specialized cooperatives marketed farm products in 1974 or earlier, whereas 30 of the 76 cooperatives in the other two groups provided marketing services for their members that year. The principal product marketed was grain. Sales of farm products in the Class II basic group jumped from $703,317 to $5.5 million—almost

8 times, and those of the Class III diversified cooperatives more than tripled—from $744,063 in 1964 to $3,271,277 in 1974 (table 1).

Hence, by 1974, marketing sales greatly exceeded supply sales in both of these groups whereas at the time they were selected for the study, in none of them did marketing exceed supply sales. Nine basic cooperatives were marketing farm products in 1964 and 10 in 1974; 18 diversified cooperatives were marketing farm products in 1964 and 20 in 1974.

Net Margins

Eighty-four cooperatives on which operating data were available had pretax net margins totaling $28,273,352 with an average pretax net of $336,587 (table 3)—equal to 7.6 percent of their total supply and marketing sales.

Average net margins for the Class I - specialized cooperatives amounted to $191,099, or 6.5 percent of sales and was the lowest, both in amount and as a percentage of sales. Net margins of the other two groups were about the same in amount, but were highest—8.3 percent—in the Class II - basic cooperatives.

Membership

The 100 cooperatives in this study had an average of 1,655 members (table 4). The number in individual associations ranged from 13 to 7,200.

Only 61 percent of the associations required that a member be a producer of agricultural products, and the range was from 50 percent in the Class I group to 70 percent in the Class II group. Seventy-one percent of the cooperatives required the purchase of a share of stock for membership, and 27 percent required the payment of a membership fee. Only 6 percent of the entire group also used purchasing agreements as a membership requirement.

Affiliation With Regional Cooperatives

Ninety-two of the 100 selected cooperatives were members of one or more regional wholesale-manufacturing cooperatives and purchased most of their requirements from

Table 3—Average annual sales and pretax net savings for the three classes of cooperatives

Item	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Dollars		
Total sales	2,924,847	4,609,870	5,118,062	4,418,511
Net savings	191,099	382,085	387,057	336,587
		Percent		
Percentage of sales	6.53	8.28	7.56	7.61
		Number		
Cooperatives with available data	21	25	38	84

Table 4—Cooperative membership, by range and average, and membership requirements

Item	Class I—specialized	Class II—basic	Class II—diversifed	All classes
		Number of members		
Membership				
Range in membership	38-7,200	151-3,800	13-4,250	13-7,200
Average	2,135	1,392	1,620	1,655
		Percent		
Requirements				
Be a producer of farm products	50	70	59	61
Purchase a share of stock	83	62	71	71
Pay a membership fee	21	23	33	27
Sign a purchasing agreement	17	3	2	6

them. The following tabulation shows that a smaller proportion of the specialized group had such an affiliation:

Cooperative class	*Percent affiliated with regional co-op*
I	71
II	100
III	98
All	92

Major Problems and Opportunity Areas

Five major areas examined in which the selected cooperatives experienced problems were: general management, finance, merchandising, physical facilities, and future growth.

General Management

Short- and Long-Range Planning

Eighty-six percent of the midsize supply cooperatives engaged in short-range planning and 70 percent reported making long-range plans (table 5). A slightly larger percentage of the Class I - specialized cooperatives did short-range planning. Only 58 percent of the Class I - specialized group, compared with 76 percent of the Class III - diversified group, did long-range planning.

When the managers were asked how their cooperative does *short-range planning* their responses were as follows:

Class I—A majority stated that some aspect of the budgeting process was used, which included fixed asset reviews, equipment revaluations, sales projections, cash-flow analyses, and projections of costs and returns.

Class II—Some form of the budgeting process was employed that covered equipment needs, projection of sales and expenses, cash flow analysis, and setting yearly goals. Two cooperatives used a planning committee composed of nonboard members who pro-

Table 5—Cooperatives engaging in short-range and long-range planning

Planning activity	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Short-range	92	85	83	86
Long-range	58	70	76	70

pose an annual plan to their boards for approval based on a survey of the membership to determine future needs. One cooperative stated that its board of directors is viewed as being representative of the farm population in the market area, and projections of products to handle and services to perform are based on their needs.

Class III—Thirty-four percent reported that they do their planning by preparing an annual budget. Other methods used, in order of frequency mentioned, included budgeting each department within the cooperative; cash-flow analysis; budget projections for needed equipment, facilities, and credit; budgeting expenses; and projecting income. Four managers said that budgets for the previous years are compared to a projected budget with adjustments made. One manager said that his short-range planning is done alone with the help of market surveys by fieldmen and suppliers.

Managers' answers to the question of how they engage in *long-range planning* were generally vague and not as definite as for short-range planning. Some of their answers were:

Class I—"It's difficult to do much planning ahead as we don't know if government will allow it."

"We plan ahead for facility needs."

"We plan ahead as best we can at board meetings."

"By the seat of our pants."

Remaining answers given were more definite:

"Future plans are based on the analysis done by the bank for cooperatives."

"Our regional cooperative provides us with projections on sales and margins."

"Our long-range planning is done with the assistance of the State college."

"A 5-year plan is developed that includes expenses, sales, and facilities."

"Five-year projections are made of capital expenditures and product mix."

Class II—"Planning is based on volume estimates taken from our farmer members."

"Board and manager plan future equipment needs."

"Long-range planning is done by the employees and board."

"Special planning sessions are held with the board."

"Each department is totally budgeted."

"Long-range goals are set by the manager and his board."

"Planning is based on our regional cooperative's 5-year computer plan covering sales, earnings, expansion, and financing."

"Projections are made on needed storage facilities and other equipment."

"Long-range planning is used for future physical expansion."

"Projections are made for sales and expenses."

"We plan ahead for land purchases and buildings."

"Long-range planning is done between the manager and the board using past history as a guideline."

"The manager and the board plan ahead for each department and the local college is used to gather trend data."

"Goals and budgets are established for each department after analyzing cooperative trends."

"Cash-flow analysis."

Class III—"Budgeting on a departmental basis"—was mentioned by five managers.

"Our regional cooperative projects a 5-year budget with historical trends considered."

"Location surveys are taken for new plant sites."

"Volume projections are made and competition is analyzed."

"The manager proposes building plans for board approval."

"Assets and equipment are budgeted."

"Projections are made for capital and expected volume."

"Planning is accomplished through sessions between the manager and board."

"Projections are made on what products to carry and what facilities are needed to handle them."

"A 3-year operating budget is formulated."

"Five-year projections are made on expenditures and fertilizer sales."

"We have a 5-year comprehensive capital plan."

"A 5-year goal-setting program was constructed."

"Five-year projections are made of facilities needed and expected sales volume."

"Ten-year projections are made of the market area and what our farmer members will need."

Annual Budgets

About two-thirds of the cooperatives reported that an annual budget was prepared and presented to the board of directors for planning.

Class I—Seventeen of this group, or 71 percent, used annual budgets. The majority stated they were used as a tool for projecting sales and expenditures. The other most frequently mentioned answer was making a cash-flow analysis.

Class II—Twenty-one of the cooperatives, or 62 percent, prepare and present an annual budget to the board of directors for planning purposes. The majority used the budget as a means for projecting income, margins, equipment, facilities, manpower, and capital needs. Three cooperatives reported that the budget is used as a means of controlling expenses.

Class III—Twenty-nine cooperatives, or 69 percent, prepare an annual budget to present to the board of directors for planning purposes. Answers as to how the budget is used for planning include the following, in order of frequency mentioned: as a guideline for measuring performance; for making a cash-flow analysis; to project financial and inventory needs. Other answers given include: "to budget expenses," "to set department goals and objectives," "to project departmental requirements," "to establish trends by previous 3-year comparisons," and "to make a current sales comparison with projected sales."

Cooperative Objectives

In only 24 percent of the cooperatives has the board of directors developed a formal written set of objectives for the cooperatives as indicated in the following tabulation:

Cooperative class	*Percent with objectives*
I	17
II	35
III	19
All	24

Class I—Following are the written objectives as stated by the managers of the four cooperatives (17 percent) in this group:

"To improve sales, facilities, and product lines."

"To give the best quality at a fair price with service and individual farmer attention."

"To begin a building program and stock revolving plan; cooperative training through a member relations program."

"To serve patrons with quality products at the right time and place; to have capable personnel and modern facilities; and to seek new products and services that are compatible."

Class II—Objectives as stated by the managers of 12 Class II cooperatives are:

"Expand the business."

"Improve the profitability of members' farming operations."

"To provide more and better services."

"To contribute to the profitability of farming."

"To improve the profitability of farming in the cooperative's market areas."

"To improve the profitability of farming."

"To establish objectives as to what the cooperative plans to do."

"To serve member needs as efficiently as possible."

"To improve sales."

"To achieve a profit for the cooperative."

"To continue present growth and service patterns; high-quality products, and maximum service."

"To give members a fair market price and good services."

Class III—Eight cooperatives in this group had the following formal written sets of cooperative objectives:

"To improve the profitability of farming; maintain sound financial policies and practices; preserve local ownership and control; lend support to the Farm Bureau; provide fair and equitable treatment to employees, promote community welfare; and operate under sound business ethics and principles."

"Our cooperative objectives are set by short- and long-range planning."

"To improve member profitability."

"Fair treatment for all, fair prices, and good services."

"Cooperative objectives are set by a long-range budget."

"Our 5-year plan sets the cooperative's objectives."

"To increase sales by showing the advantages of shopping the cooperative by farmer's wives; to increase sales to members to balance out nonmember business."

"To increase sales to $8 million by 1980; to maintain a pretax return of 25 percent

on invested capital while continuing to sell at competitive prices; to improve capability in member communications to the point of a complete, formal, and active program of regular communications with all the cooperative's member patrons."

Management and Board of Directors Relationship

Managers of the cooperatives were asked to characterize their board of directors as being good, fair, or poor with regard to the following areas: (1) management and board's general relationship, (2) board's awareness of the cooperative's day-to-day business operations, (3) board's interest in expanding the business, (4) board's interest in altering physical facilities, and (5) board's involvement in the cooperative's day-to-day business operations.

The one area that consistently rated lower than any other by the managers of all three classes of cooperatives was the board of directors' awareness of the cooperative's day-to-day business operations (table 6). In addition, the Class I - specialized cooperative managers noticeably rated lower their board's interest in expanding the business and their interest in altering the cooperative's physical facility.

Managers also were asked if there were any areas between management and the board of directors that they thought needed improvement. Their replies were:

Class I—Seven cooperatives, or 29 percent, of this group answered yes to this question. Areas mentioned as needing improvement were:

"Board's understanding of cooperatives and what they can do for members."

"Board needs to be educated in the cooperative's day-to-day business operations."

"Board needs to give the manager operating guidelines and let him run the business."

"Board needs to become better informed in financial techniques and merchandising practices."

"A better understanding of the division between board and management responsibilities."

"Board needs to become more willing to spend money for expansion and employee salaries."

Table 6—Manager evaluation of director performance

Performance area	Class I—specialized			Class II—basic			Class III—diversified			All classes		
	Good	Fair	Poor	Good	Fair	Poor	Good	Fair	Poor	Good	Fair	Poor
	Percent											
Relationship with manager	83	17	0	88	12	0	98	2	0	91	9	0
Awareness of co-op's day-to-day business operations	67	25	8	59	38	3	69	29	2	65	31	4
Interest in expanding the business	67	29	4	82	18	0	90	10	0	82	17	1
Interest in altering physical facilities	67	25	8	94	3	3	88	10	2	85	11	4
Involvement in co-op's day-to-day operations	88	4	8	85	15	3	81	17	2	84	12	4

Class III—Twelve cooperatives, or 28 percent, said the following areas involving board and management needed improvement:

"Board reports need to give better information."

"There needs to be better communication between board and management and improved board loyalty in buying the cooperative's supplies."

"Board needs to have a better understanding of grain prices."

"Younger members need to be placed on the board."

"Board needs to become better informed on how a cooperative is operated."

Class II—Eleven cooperatives, or 32 percent, reported the following needed areas of improvement:

"Younger members are needed on the board."

"More discussion and concern is needed between board and management of future operational problems."

"A better line of communication is needed between board and management."

"The board should hold meetings more often."

"Board members need to become more aware of the cooperative's total operations."

"Better communication between board and management is needed."

"Board needs to become more involved with long-range planning."

"Board needs to become more aware of overall operating expenses."

"Board needs to form more committees to work on special problem areas."

"The board needs to be rotated more often."

"Board needs to become more aware of the cooperative's day-to-day operating problems."

"Board policies are too strict in certain areas such as management succession."

"Board needs to become more aware of what's going on in the cooperative."

"Younger members are needed on the board."

"We have a need for better qualified directors."

"There is a need for more understanding and better communications."

"The board needs to become aware of the cooperative having to generate margins to please lenders."

"We need younger members on the board to go along with needed changes."

Personnel Management

The cooperatives interviewed employed an average of 31 full-time and 4 part-time employees. Table 7 shows that the more diversified Class III cooperatives have a higher average number of full-time and part-time employees, as one would expect.

Only 40 percent of the cooperatives provide *written job descriptions* for their employees and, as table 8 shows, this average did not vary noticeably between the three classes of cooperatives. In most cases, written employee job descriptions should be provided that clearly outline the work to be done and define the corresponding areas of responsibility. Having each employee informed as to what is expected on the job not only avoids confusion, especially during peak periods, but leads to more efficient day-to-day operations and better service to member patrons. Additionally, written job descriptions provide standards to enable management to properly evaluate employee performance. Job descriptions should be written for every full-time employee including the manager, assistant manager, and office staff.

During the course of this study, it was observed that many managers were too busy with routine daily operational tasks to perform effectively in a managerial capacity. In

Table 7—Average number of full-time and part-time cooperative employees

Employees	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Average Number		
Full-time	28	31	34	31
Part-time	2	4	5	4

one case, for example, the manager functioned more as a foreman with the employees accountable to him for all jobs performed. These jobs and the responsibilities for carrying out the jobs should be delegated to the employees via the written job description. This management tool is also effective in delineating authority and responsibility between the cooperative manager and his board of directors. It was observed, for example, in some cooperatives not having written job descriptions, that the board members were involved in areas of the cooperative's business operations that should have been the manager's sole responsibility.

Sixty-five percent of the cooperative managers hold *meetings with their employees* on a regular basis to determine such things as job satisfaction, personal problems, labor productivity, etc. The majority of the managers reported that these meetings are held on a monthly basis. The remaining 35 percent did not conduct regular meetings with their employees. Many of these managers stated that meetings are held on an individual basis as necessary. There was little variation among the three groups of cooperatives. During the course of conducting the management audits, numerous employees stated that they felt out of touch with what was really going on in the cooperative. Regular employee meetings would provide the communication necessary not only to make the employee's job more meaningful and satisfying to him but also to make him more productive to the cooperative.

Table 8 indicates that 95 percent of the cooperatives provided some *job training for their employees*. The most frequently mentioned forms were on-the on-the-job training and schools conducted by regional farm supply cooperatives. Other methods of training, in order of frequency mentioned, include technical schools, State university programs, local colleges, and correspondence courses. On the surface, it would appear that there is not a lack of training being given employees of the cooperatives interviewed. However, as table 9 shows, the most frequently encountered labor management problem is obtaining qualified personnel. This implies that perhaps the training given employees is not as thorough as it should be.

We asked the managers if they encountered *personnel problems in specified areas* within the previous year. The most frequently mentioned were: obtaining qualified person-

Table 8—Employee management practices

Practice	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Written job descriptions	42	41	38	40
Regular employee meetings	67	62	67	65
Job training	100	88	98	95

Table 9—Labor management problems

Problem	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Obtaining qualified personnel	46	32	52	44
Pay scales too low	38	29	33	33
Declining productivity	17	18	17	17
Excessive employee absenteeism	8	6	5	6
Poor fringe benefits	8	3	5	5
Poor opportunities for promotion	8	3	21	12
Poor working conditions	4	3	0	2
Poor relationship with manager	4	3	2	3
Poor opportunities for further training	0	0	7	3

nel, declining labor productivity, complaints that pay scales were too low, and that promotional opportunities were poor.

Product Shortages

The tabulation below shows that 68 percent of the cooperatives in the study experienced shortages of various products during 1974:

Cooperative class	*Percent having shortages*
I	54
II	73
III	71
All	68

Noticeably more of the "basic" Class II cooperatives primarily handling feed, seed, and fertilizer and the more diversified Class III cooperatives faced product shortages than the specialized Class I cooperatives.

Items in short supply during 1974 included the following, in order of frequency mentioned:

Class I—petroleum, tires, fertilizer, steel products, twine, and chemicals.

Class II—fertilizer, chemicals, steel products, petroleum products, TBA (tires, batteries, and accessories) and twine.

Class III—fertilizer, chemicals, petroleum products, steel products, twine, tires, and appliances.

When we asked the managers how their cooperative dealt with product shortages, the most frequently reported methods by far were to seek alternative suppliers and to ration items by customer according to volume of previous purchases (table 10).

Regional Cooperative Relationships

As mentioned, 92 percent of the cooperatives are affiliated with a regional farm supply cooperative from which most supplies are purchased.

The managers were asked to rate the performance of their regionals as being satisfactory or unsatisfactory in 12 areas of activity (table 11).

More dissatisfaction was shown by managers with wholesale prices charged the locals by regional cooperatives and this dissatisfaction was noticeably greater for managers of Class I and II cooperatives. Other areas of dissatisfaction with the regional were lack of: Timely servicing of orders, merchandising assistance, retirement of equities, facility planning assistance, and personnel assistance.

Product Lines and Services

Table 12 shows that 38 percent of the cooperatives were handling product lines not

Table 10—Ways that cooperatives dealt with farm supply shortages

Methods employed	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Sought alternative suppliers	69	92	83	84
Customer rationing according to previous purchases	46	68	67	63
Customer rationing according to size of farm	15	4	0	4
Sold short products to co-op members only	31	12	7	13
Raised prices on short products	0	12	13	10

Table 11—Manager evaluation of regional farm supply cooperative performance

Regional activity	Class I—specialized		Class II—basic		Class III—diversified		All classes	
	Satisfactory	Unsatisfactory	Satisfactory	Unsatisfactory	Satisfactory	Unsatisfactory	Satisfactory	Unsatisfactory
				Percent				
Cash patronage refunds	94	6	85	15	98	2	92	8
Credit and financial assistance	59	12	79	3	93	0	82	3
Facility planning assistance	82	6	79	9	83	15	82	11
Merchandising assistance	65	29	70	20	88	10	77	17
Personnel assistance	76	6	76	12	83	10	79	10
Record and bookkeeping assistance	47	12	68	6	83	5	71	7
Timely servicing of orders	82	18	79	20	85	15	83	17
Product line variety	88	12	88	12	95	5	91	9
Retirement of equities	82	18	73	21	88	7	82	14
Merchandise quality	94	6	94	6	100	0	97	3
Wholesale prices	59	41	65	35	90	10	75	25
Overselling of merchandise	94	6	88	12	93	2	91	7

Table 12—Current services not performed and product lines not handled in the 3 previous years

Item	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Services	33	29	48	38
Product lines	46	35	36	38

carried during the previous 3 years. New product lines most frequently mentioned by the three classes of cooperatives were:

Class I—Fertilizer, paint, and pet supplies.

Other items less frequently mentioned included oil and gas filters, appliances, unleaded gasoline, garden supplies, tires and batteries, feed and dairy equipment.

Class II—Small hardware and garden seeds. Other items include tack, liquid fertilizer, unleaded gasoline, dairy equipment, lumber, farm buildings, auto and tractor tires, appliances, and horse feed.

Class III—Fertilizer and petroleum products. Other lines reported included building materials, soybean meal, plants and shrubs, chemicals, small machinery, grain handling equipment, bulk corn, housewares, irrigation equipment, seed, tires, and farm buildings.

The proportion of managers who expect their cooperatives to sell new products next year and the most frequently mentioned items were:

Class I—58 percent:

Liquid petroleum (LP) gas was the most frequently mentioned new product; others included hay, paint, liquid fuel, chemicals, hardware, appliances, animal health products, dairy and poultry equipment, lawn and garden supplies, and liquid fertilizer.

Class II—73 percent:

Most frequently mentioned new products were bulk fertilizer, feed, petroleum, and chemicals. Other products included seed, lumber, appliances, feed grinding and mixing equipment, cement, LP gas, farm machinery, TBA, and dog food.

Class III—45 percent:

Most frequently mentioned new products included fertilizer, petroleum products, building materials, plants and shrubs, chemicals, and small machinery. Other items mentioned were grain handling equipment, housewares, irrigation equipment, seed, tires, and farm buildings.

Table 12 shows that 38 percent of the cooperatives were currently performing services *not* performed during the past 3 years. New services most frequently mentioned by the cooperatives were:

Class I—Fertilizer and chemical application. Other new services mentioned included onfarm tire service, painting farm buildings, separate tire department, and a washing facility for trucks and tractors.

Class II—Fertilizer and chemical application. Other new services, in order of frequency mentioned included onfarm tire repairs, construction of farm buildings, paint spraying, crop dusting, grain marketing, and a hedging program on cattle and hogs.

Class III—Fertilizer spreading, onfarm tire service, and chemical spraying. Other new services reported included grain drying, crop dusting, grinding and mixing, car service center, air conditioning service, liquid feed supplements, lawn and garden center, and soil testing.

We asked the managers if they expected their farmer patrons to want more custom, leasing, and management services within the next 5 years. Table 13 shows that 87 percent of the managers expect their farmer patrons to want more custom services within the next 5 years; 34 percent expect more leasing services; and 48 percent expect more management services.

The types of custom, leasing, and management services that members were expected to request in the next 5 years were:

Class I: *Custom Services*—Fertilizer and chemical application. Other services, in order of frequency mentioned, included onfarm tire service, custom blending, harvesting, combining, plowing, planting, and baling.

Table 13—Cooperatives expecting members to want more service in next 5 years

Service	Class I—specialized	Class II—basic	Class III—diversified	All classes
			Percent	
Custom	79	82	95	87
Leasing	46	29	31	34
Management	29	53	55	48

Eighty-four percent of this group of cooperative managers said they intended to provide these services.

Leasing—Farm equipment such as fertilizer, chemical, and harvesting equipment, farm machinery, and fuel handling equipment (82 percent of cooperatives).

Fifty-four percent said they expected to provide these leasing services.

Management—One type did not predominate over another.

Types reported were bookkeeping, fuel and oil recommendations, product knowledge, farming versus other investments, and assistance in gas tax refunds.

All the cooperative managers said they expected to provide these management services.

Class II: *Custom Services*—Fertilizer and chemical applications. Others, in order of frequency mentioned, include bulk feed delivery, seed application, spraying, combining, custom blended roughages, and custom blended grain rations.

Eighty-nine percent of the cooperative managers said they would provide these custom services.

Leasing—Fertilizer spreaders. Other services, in order of frequency mentioned, included leasing of LP tanks, chemical applicators, and spraying equipment.

All the managers reported that they intend to provide these leasing services.

Management Services—Fifty-three percent of the managers expected their farmer patrons to want more bookkeeping and farm management services. Other management services, in order of frequency mentioned, included fertilizer and chemical recommendations, optimum feed formulation, livestock management, crop management, and contracting aerial crop dusters. Seventy-eight percent of the managers indicated they intend to provide such services.

Class III: *Custom Services*—These cooperatives also expect their farmer patrons to want more custom fertilizer and chemical application than any other custom service reported. Other custom services expected, in order of frequency mentioned, included feed delivery, seed application, petroleum delivery, equipment maintenance, livestock contract growing, paint spraying, onfarm tire service, grain delivery, turn-key farm buildings, fence erection, plowing, corn drying, and harvesting, Eighty-three percent of the managers said they would provide these services.

Leasing—Thirty-one percent of the managers said they expect their farmer patrons to want more leasing of equipment. Most frequently mentioned items included fertilizer and chemical applicators, bulk feed tanks, LP gas storage, tractors, and trucks. Other items mentioned were grain hauling equipment, liquid fertilizer tanks, and harvesting equipment. All the managers said they would provide these leasing services.

Management Services—Fifty-five percent of the managers reported their farmer patrons expect more management services. Most frequently mentioned were bookkeeping, farm management, feed and chemical management, technical advice on fertilizer and chemicals, advice on nutrition and agronomy, and livestock and crop management. Oth-

ers were financial planning and soil and fertility management. Eighty-seven percent of the managers said they would provide these services.

Finance and Credit

Operating Capital

As the extent of diversification of supplies increased, the percentage of cooperatives borrowing operating capital increased. In 1975, 88 percent of the diversified Class III group compared with 62 percent of the specialized Class I group, borrowed operating funds. Average interest rates paid by the Class III cooperatives were lower than the other two classes for 1973 (table 14).

We asked the cooperatives that borrowed operating capital if the interest rates paid in 1973 and 1975 had any effect on physical expansion or sources of credit. The answers given showed that interest rates paid had more effect on expansion and sources of credit for the Class III cooperatives. Twenty-one percent said that interest rates limited or postponed expansion of physical facilities; one cooperative said they sought alternative sources of credit; one cooperative said they changed credit sources from their regional cooperative to the bank for cooperatives, and another said they switched to the bank for cooperatives for long-term loans.

Only five Class II cooperatives and two Class I cooperatives said that interest rates paid limited expansion of physical facilities.

Accounts Receivable—Table 15 shows that 96 percent of the cooperatives have a formal credit policy and 95 percent have the policy in written form. Average age of accounts receivable for the cooperatives interviewed was 48 days. As table 16 indicates, the Class III cooperatives showed the highest average accounts receivable age. Thirty-eight percent of the cooperatives reported that the average age of their accounts receivable was greater than the previous year.

To finance future growth, the majority of the cooperatives use retained earnings and the bank for cooperatives, in that order. Other means of financing future growth, in order of frequency mentioned, include local banks, stock sales, and through affiliated regional cooperatives.

Table 14—Cooperatives borrowing operating capital and interest rates paid—1973 and 1975

Cooperative class	Percentage borrowing		Interest rate	
	1973	1975	1973	1975
		Percent		
I—Specialized	50	62	8.00	8.97
II—Basic	79	74	7.90	8.60
III—Diversified	90	88	7.47	8.71

Table 15—Cooperatives having a formal credit policy and policies in writing

Item	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Formal credit policy	95	97	95	96
Policy in written form	92	91	100	95

Table 16—Accounts receivable: Average age and comparison with previous year

Item	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Days		
Average age of accounts receivable	44.5	48	50.4	48
		Percent		
Average age, compared with previous year:				
Greater	50	35	34	38
Less	29	41	34	36
Same	21	24	32	26

Merchandising

Current Methods of Merchandising Specified Products

As mentioned, the majority of the more diversified Class III cooperatives handle all the products listed in table 2, whereas the majority of the more specialized Class I cooperatives handle general supplies and petroleum products. The Class II basic cooperatives obtain their sales volume primarily through general supplies, fertilizer, and farm chemicals.

General Farm Supplies—Table 17 indicates the various methods used by the cooperatives to merchandise general farm supplies. Some form of advertising is used by the majority of all classes of cooperatives to merchandise general farm supplies.

Class I—53 percent used radio and newspapers; 29 percent used newspapers only, and the remaining 18 percent used radio, TV, and newspaper ads.

Class II—The media preferred by the majority of these cooperatives to advertise general farm supplies are radio and newspapers; other media used, in order of frequency mentioned, included newspapers only, TV, and radio only.

Class III—A majority of these cooperatives used radio and newspapers. Other media used included direct mail, magazines, fliers, billboards, and statement stuffers.

Other merchandising methods used extensively to sell general farm supplies by the

Table 17—Supply merchandising methods of 90 cooperatives selling supplies

Merchandising method	Class I—specialized	Class II—basic	Class III—diversified	All classes
			Percent	
Advertising	94	88	98	98
Farm delivery service	89	76	95	91
Customer pickup service	89	70	88	86
Sales area with related products displayed	78	79	95	90
Catalog sales	11	18	31	23
Self-service retail store	39	50	57	53
On-farm sales and service	78	59	88	79
Delivery and setup service (fencing, etc.)	39	32	45	41
Outdoor product display area	39	47	74	60

cooperatives included farm delivery service, customer pickup service whereby a patron calls in an order, and a sales area with related product lines grouped and displayed.

Catalog sales and a delivery and setup service for items such as fencing are not used extensively by the cooperatives to merchandise general farm supplies.

Petroleum Products—Ninety-three percent of the cooperatives handling petroleum products have a delivery service. As shown in table 18, all the Class I cooperatives have this service and use some form of advertising. The majority of all three classes of cooperatives use radio and newspapers; the second most frequently mentioned medium was newspapers; other media were magazines, statement stuffers, and television.

Ninety-four percent of the Class I cooperatives carry a full line of petroleum products and operate a service station with associated sales of tires, batteries, and accessories.

A relatively small percent of the cooperatives sell their petroleum products through exclusive distributors on a commission basis or operate self-service gasoline pumps. Forty-five percent lease or loan farm storage petroleum tanks to farmers.

Fertilizer—It's interesting to note that a larger percentage of the Class III cooperatives employs every one of the merchandising methods listed in table 19.

Eighty-nine percent of the cooperatives handling fertilizer use some form of advertising. The media preferred by all the cooperatives are radio and newspapers, with newspapers ranking second. Other forms of advertising mentioned include TV, magazines, direct mail, and statement stuffers.

Farm Chemicals—Except for a customer pickup service, a larger percentage of the Class III cooperatives used all of the merchandising methods listed in table 19.

Only 32 percent of the cooperatives selling fertilizer custom blend chemicals with fertilizer, with none of the Class I specialized cooperatives performing this service.

The advertising media preferred by 90 percent of the cooperatives selling farm chemicals are radio and newspapers, with newspapers coming in second. Other media mentioned included TV, direct mail, statement stuffers, and magazines.

Feed—Table 20 indicates that a greater percentage of the more diversified Class III cooperatives has taken advantage of more of the merchandising methods listed. Ninety-seven percent of the cooperatives selling feed handle this item in bag form, 95 percent handle it in bulk form, and another 95 percent carry a full line of feed.

Only 20 percent of the cooperatives lease or loan feed storage equipment to farmer patrons and 45 percent make delivery on a contractual basis.

Table 18—Petroleum merchandising methods of 80 cooperatives

Merchandising method	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Advertising	100	91	82	89
Farm delivery service	100	91	89	93
Customer pickup service	72	61	64	65
Service station with TBA sales[1]	94	87	61	76
Self-service pumps	17	26	36	29
Sales through exclusive distributors	28	17	13	18
Full line of petroleum products	94	87	87	89
Lease or loan farm storage tanks	39	39	51	45

[1] Tires, batteries, and accessories.

Table 19—Fertilizer and farm chemicals merchandising methods

Merchandising method	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Fertilizer				
Advertising	83	79	95	89
Farm delivery service	83	82	93	89
Customer pickup	83	82	93	89
Bulk fertilizer handled	67	82	95	89
Bag fertilizer handled	83	94	100	98
Liquid fertilizer handled	17	59	67	60
Custom spreading	67	70	83	78
Rental of spreader equipment	67	73	83	79
Field representative to soil test	67	65	88	78
Custom blending	67	65	83	75
Farm Chemicals				
Advertising	78	84	97	90
Farm delivery service	56	68	78	72
Customer pickup	100	84	97	93
Custom application	22	50	68	56
Lease or loan application equipment	11	37	44	38
Custom blending chemicals with fertilizer	0	28	41	32
Full line of farm chemicals	67	84	95	88

Table 20—Feed and lawn and garden supply merchandising methods of 72 cooperatives

Merchandising method	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Feed				
Advertising	55	88	95	88
Delivery on contractual basis	22	36	55	45
Customer pickup service	67	88	97	90
Full line of feed	89	92	97	95
Bulk feed handled	100	88	97	95
Bag feed handled	89	96	100	97
Mixing and blending service	67	60	72	68
Sale of feed inputs separately	55	68	82	74
Custom blending	67	64	70	68
Lease or feed storage equipment	11	16	25	20
Lawn and Garden Supplies				
Advertising	86	81	80	81
Special separate sales area	43	48	61	54
Full line of lawn and garden supplies	57	67	80	73
Grouping of related product lines	71	63	64	64
Garden plants and shrubs handled	14	33	42	36

Eighty-eight percent of the cooperatives use some form of advertising, and the media preferred are radio and newspapers; newspapers are second. Other media mentioned included TV, statement stuffers, magazines, direct mail, and in-store displays.

Lawn and Garden Supplies—As table 20 indicates, a greater percentage of the Class I specialized cooperatives group related lawn and garden items for advertising and merchandising purposes. As expected, the more diversified Class III cooperatives carry a complete line of lawn and garden supplies, including garden plants and shrubs and have a separate sales area within the retail store to merchandise these products.

The media preferred by all three classes of cooperatives were radio and newspapers. Other types mentioned were TV, direct mail, statement stuffers, and billboards.

Most Effective Merchandising Practices in Past 5 Years

Managers of all three classes of cooperatives said that *on-the-farm salesmen* and *good service* were the most important and effective methods of merchandising farm supplies in the past 5 years.

Other effective methods reported by each class, in order of frequency mentioned, were:

Class I—Word-of mouth advertising, good displays, quality products, radio advertising, newspaper advertising, competitive prices, good employees, cash patronage refunds, TV advertising, good product mix, sales promotions, and geographic locations.

Class II—Cooperative newsletter, good retail store personnel, well-stocked inventory, quality products, grouping of related product lines, clean store, seasonal promotions, farmer meetings, discount offerings, and competitive prices.

Class III—Good personnel, good displays, seasonal promotions, well-stocked inventory, good cooperative image, competitive prices, product demonstrations, quantity discounts, quality products, timely deliveries, discount drop shipments, catalog sales, farmer meetings, cash patronage refunds, and location.

Factors Hampering Sale of Farm Supplies

The two factors most frequently mentioned by all three classes of cooperatives were: (1) price competition from discount stores, and (2) lack of adequate physical facilities to properly merchandise farm supplies.

Other factors reported by class of cooperatives in order of frequency were:

Class I—No credit given members and patrons, fuel allocations and controls, sloppy store displays, distance to member farms, lack of good communications with members, lack of adequate working capital, too many lines of merchandise handled, lack of good employees, poor cooperative visual identity, and poor location.

Class II—Shortages of some products, obtaining and keeping qualified personnel, poor communications with members, and lack of adequate equipment to service customers properly.

Class III—Lack of good sales personnel, poor displays, poor location, personnel shortages in peak season, urban development, Government controls and allocations, poor cooperative image, lack of advertising, and too many product lines handled.

Patrons' Evaluation of Cooperative Performance

Managers were asked how their member and nonmember patrons rated the performance of their cooperatives in various functional areas.

Managers were overwhelmingly of the opinion that both types of patrons (members and nonmembers) were satisfied with the manner in which their cooperatives performed

timely servicing of customer orders and general overall service (tables 21 and 22). Both groups also were quite well satisfied with volume discounts and pricing of supplies. Most functions were believed to receive a higher rating by members than nonmembers.

Physical Facilities

Maintenance and Modernization

All three classes of cooperatives have been in their present location an average of 33 years. Fifty-nine percent of the cooperatives have renovated or expanded their existing facilities, but only 16 percent have moved to new facilities within the past 5 years; and 46 percent were currently housed in facilities that will need substantial repair or replacement (table 23).

We asked managers about additional facilities expected to be added within the next 5 years. The following lists the facilities by class of cooperatives in order of frequency mentioned:

Class I—Bulk fertilizer plants, retail stores, warehouses, offices, LP gas plants, service stations, and petroleum storage facilities.

Table 21—Managers' opinions as to member-patrons' evaluation of cooperative performance, by function

Function	Class I—specialized		Class II—basic		Class III—diversified		All classes	
	Satisfied	Unsatisfied	Satisfied	Unsatisfied	Satisfied	Unsatisfied	Satisfied	Unsatisfield
	Percent							
Overall service	100	0	100	0	95	5	98	2
Timely servicing of orders	100	0	97	0	100	0	99	0
Volume discounts	29	0	65	0	69	5	58	2
Pricing of supplies	87	0	85	0	78	22	83	9
Custom services	71	0	76	0	88	5	80	2
Prices received for marketing products	0	0	18	0	48	7	26	3
Cash patronage refunds	83	0	73	0	90	10	83	4
Retirement of equities	71	0	53	0	57	43	59	18

Table 22—Managers opinions of nonmember-patrons' evaluation of cooperative performance, by function

Function	Class I—specialized		Class II—basic		Class III—diversified		All classes	
	Satisfied	Unsatisfied	Satisfied	Unsatisfied	Satisfied	Unsatisfied	Satisfied	Unsatisfield
	Percent							
Overall service	100	0	94	0	97	3	99	1
Timely servicing of orders	100	0	88	0	100	0	98	0
Volume discounts	32	0	56	0	56	0	52	0
Pricing of supplies	95	0	82	0	82	10	87	4
Custom services	77	0	70	0	77	10	76	4
Prices received for marketing products	0	0	18	0	41	8	24	3
Paperwork involved in making purchasing	82	0	88	0	77	5	84	2

Table 23—Facility maintenance and modernization

Item	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Need substantial repair/replacement	42	41	52	46
Moved to new facilities	8	23	14	16
Renovated or expanded	42	62	67	59
Altered facilities	79	59	71	69

Class II—Grain storage facilities, bulk fertilizer plants, retail stores, warehouses, petroleum storage facilities, feed mills, TBA centers, and gasoline service islands.

Class III—Retail stores, bulk fertilizer storage, warehouses, feed mills, offices, fertilizer blending plants, grain storage facilities, bulk fertilizer plants, TBA centers, grain dryers, and service stations.

Branch Facilities

Table 24 shows that 68 percent of the cooperatives operated a total of 247 branch facilities; and the average age of these branches was 19.4 years. A higher proportion of the Class I - specialized cooperatives had branches, and they had been in operation longer than those of the other two groups.

Class I—We found that the greatest number of facilities operated were bulk fertilizer plants and service stations. Other branch facilities, in order of frequency mentioned, included retail stores, propane plants, and warehouses.

The majority of these facilities—52 percent, were constructed by the cooperative; 40 percent were obtained by purchasing existing facilities; 6 percent were acquired by merger with another organization; and the remaining 2 percent were rented.

Class II—The greater number of branch facilities operated by this group were dry fertilizer plants, bulk petroleum plants, retail stores, and service stations. Other facilities, in order of frequency mentioned, included liquid fertilizer plants, grain elevators, warehouses, feed mills, and grinding and mixing facilities.

Forty-three percent of these branch facilities were constructed by the cooperative, 32 percent were obtained by purchasing existing facilities, 17 percent were acquired by merger with another organization, 7 percent were rented, and 1 percent was acquired through a joint venture.

Class III—Cooperative branch facilities primarily included retail stores, bulk fertilizer plants, feed mills, bulk petroleum plants, and grain elevators, in that order. Other

Table 24—Cooperatives operating branch facilities and average age facilities

Item	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Percent		
Operating branches	79	70	59	68
		Years		
Average age	26.8	14.7	16.2	19.4

facilities, in order of frequency mentioned, were service stations, warehouses, lumber yards, liquid fertilizer plants, and one implement dealership.

Fifty-two percent of these branch facilities were acquired by purchasing existing facilities, 33 percent were constructed by the cooperative, 12 percent were acquired by merger with another organization, and 3 percent were rented.

Government Regulations Affecting Facilities and Operations

Table 23 shows that 69 percent of the cooperatives had altered some part of their facility or operation within the past year—usually to conform to Federal, State, and local regulations regarding labor, health, safety, or pollution. The majority of these alterations involved the installation of various safety equipment, such as handrails or dust-control equipment and the diking of bulk petroleum plants. Several cooperatives had to relocate their bulk petroleum plants outside the town limits. Seventy-one percent of the managers stated their cooperative would encounter problems meeting the requirements of Government agencies and 28 percent said their cooperatives were not financially capable of complying with future Government regulations.

Cooperative Growth

Volume Increases Over Past 10 Years

We asked the managers to describe the methods by which sales volume increased over the past 10 years. Table 25 indicates that a larger percentage of the Class II and III cooperatives increased gross sales volume by all the methods listed except for "increases in membership."

The more specialized Class I cooperatives had an average 10-year increase of gross farm supply sales of $1,670,789, or 120 percent, while the more diversified Class II and III cooperatives had an average increase of gross farm supply and marketing sales of $6,881,622 and $5,034,586, respectively (table 1). Their percentage increases were 371 and 268, respectively.

Mergers and Joint Ventures

None of the *Class I* managers reported that their cooperatives were involved in merger proceedings nor were any contemplated in the foreseeable future; three of the cooperatives or 12 percent said that pressures currently exist to acquire the assets and

Table 25—Ways cooperatives increased sales volume in past 10 days

Method	Class I—specialized		Class II—basic		Class III—diversified		All classes	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Increased membership	20	83	21	62	30	71	71	71
Expansion of market area	16	67	22	65	31	74	69	69
Expansion of current services	14	58	29	85	36	86	79	79
Addition of new services	12	50	26	76	37	88	75	75
Addition of new products	11	46	26	76	33	79	70	70
Merger	1	4	10	29	11	26	22	22

operations of other organizations; five Class I cooperatives or 21 percent reported that they are involved with some type of joint venture with another organization.

Six *Class II* cooperatives, or 18 percent, said that pressures are mounting to institute merger proceedings with another organization, and two cooperatives or 6 percent reported that pressures currently exist to acquire the assets and operations of other organizations. Six Class II cooperatives, or 18 percent, are involved with some type of joint venture.

Six *Class III* cooperatives or 14 percent reported that pressures exist to merge with another organization, and four cooperatives or 9 percent said that pressures exist to acquire the assets and operations of other organizations. Five Class III cooperatives or 12 percent are involved in some type of joint venture.

Market Share

We asked the managers if they annually calculate their market share of each of the firm's major product lines. The following tabulation shows that 43 percent of all cooperatives calculate their market share, with a larger proportion of the Class III - diversified group preparing this information:

Cooperative class	*Percent calculating share of market*
I	33
II	20
III	59
All	43

When we asked managers if the market share of their cooperative's total farm supply business increased, declined, or remained the same over the past 5 years, 88 percent said their share had increased, 5 percent said it had decreased, and 7 percent said their market share had remained the same.

Urban Growth

Thirty percent of the cooperatives reported that their sales volume has changed because of the growth of nearby cities; 90 percent said their volume had increased, while the remaining 10 percent said volume decreased.

Twenty-five percent of the cooperatives reported that producer membership changed due to the growth of nearby cities; 64 percent said that producer membership decreased while the remaining 36 percent said it increased.

Eighty percent of the cooperatives affected by urban growth said the growth will create problems for their cooperatives; reasons given by the managers include the following:

"Will encourage growth of tourism in our market area."

"Problems will arise as to what products to handle for nonfarm patrons."

"As smaller farms decrease in our area, the farms increasing in size will demand more services."

"Our cooperative will continue to lose producer members."

"Competition from the discount chains will hurt us."

"Pollution controls will become too costly to finance."

"Urban growth will become a problem only if our cooperative doesn't go after the urban business."

"The increase in nonfarmer business is getting our cooperative closer to the 50-percent limit."

"Our business will eventually have the problem of maintaining cooperative eligibility."

"Farmer business will decline over the next 5 years and turn our business into a consumer's cooperative."

"Our cooperative will have a problem in understanding and planning for urbanite needs."

Ideal Size for the Future

The managers were asked what they thought would be the ideal size for their cooperatives, taking into consideration maximum savings and service to members in terms of number of employees, number of members, sales volume, and net worth. Their responses have been averaged by the three classes of cooperatives in table 26. Compared with the current size of their cooperatives, all managers would like to see an increase in the number of employees and membership, and in sales volume and net worth.

Future Problems

The managers were asked what they considered to be the major problem areas their cooperatives would face over the next 5 years. Responses were many and varied. More than 40 cooperatives listed these four problems: ability to raise capital, complying with Government regulations, meeting competition, and maintaining operational and labor efficiency. From 20 to 30 listed inflation, accounts receivable, and changing markets as other problems expected in the next few years.

Comments about these seven types of problems follow.

Capital

The most frequently mentioned problem area was the ability of the cooperative to obtain sufficient capital for expansion of the business in terms of larger facilities and equipment and increased services needed.

Some of the comments by managers were:

"Availability of working capital, interest rates, capital for expansion, problems of financing, large amounts of capital needed by the regional and local cooperative, capital

Table 26—Managers' image of ideal cooperative sizes

Item	Class I—specialized	Class II—basic	Class III—diversified	All classes
		Average number		
Employees	27	42	38	37
Members	3,013	1,801	2,437	2,301
		Average dollars		
Sales—total	4,765,625	9,464,516	7,530,000	7,734,416
Net worth	1,603,125	2,468,709	2,281,833	2,216,039

required to meet EPA (Environmental Protection Agency) and OSHA (Occupational Safety and Health Administration) standards, tight money, and cash flow."

Government Regulations

Another problem area mentioned nearly as often and closely related to the first was the capital required to comply with Federal, State, and local regulations regarding labor, safety, and pollution standards. Many managers were concerned that as these regulations become more strict, especially those relating to air and water pollution, the large amounts of capital required would seriously limit the ability of the cooperatives to expand.

Comments of managers included:

"Government regulations and product allocations, paperwork involved in keeping current with FEA (Federal Energy Administration) regulations, Federal regulations of EPA and OSHA, costs of adhering to pollution controls and municipal government controls, and licensing of custom applicators."

Competition

Many of the managers were concerned about the ability of their cooperatives to maintain a competitive position in their market areas. According to these managers, greater efforts will have to be made in the future to keep operating expenses down to a minimum and to price their products and services competitively, and still be able to generate adequate margins.

Illustrations of responses were:

"Ability to stay competitive due to crude oil situation, competitive pricing, maintaining decent margins, competition of national companies for fertilizer and pesticides, price competition in petroleum products, competitive market conditions in feed, competition from another cooperative, unpredictable fertilizer supply and prices."

Operational and Labor Efficiency

Another frequently mentioned problem area was maintaining a high degree of operational efficiency through increasing labor productivity. There was concern that some cooperative employees are not as productive on the job as others. Many felt that their cooperatives should be able to pay competitive wages to obtain better qualified personnel.

Managers' comments were:

"Achieving increases in employee efficiencies and quality of service, ability to keep costs in line, personnel development, trained and competent employees, obtaining and keeping qualified personnel, increased operating expenses, and ability to find qualified personnel for branch and division managers' positions."

Inflation

This universal problem was the next most frequently mentioned area of concern. Successfully managing a local cooperative or any other kind of business under a long inflationary period gets to be more and more of a challenge as costs for products, services, labor, and equipment continue to rise.

Accounts Receivable

A number of managers felt that the percentage of overdue accounts receivable would rise in the future as the net income of producer members declines. To alleviate this problem somewhat, cooperative managers should adopt a strict written credit policy and adhere to it. This is discussed in greater detail elsewhere in this study.

Some of the managers were concerned that their cooperatives did not have the ability to adapt to a market that is undergoing change because of an increase in urban as opposed to rural growth. These managers felt that the different product lines required, methods of merchandising that would be necessary, and the differences in dealing with urban customers are too far removed from their usual business and would require an expertise they do not have. It was contended earlier in this study, however, that an increase in urban business often presents an opportunity for local cooperatives, especially in the form of better margins, for such items as horse feed, tack, lawn mowers, and appliances. Furthermore, expertise to merchandise these products currently exists in many local farm supply cooperatives and, with the assistance of their regionals, can be easily developed.

Other problems—Those listed by managers of a few of the cooperatives were:

"Product shortages, allocation of supplies, environmental problems, energy crises, maintaining satisfactory margins, expansion of facilities, squeezing of margins, coping with urbanization, adequate facilities, maintaining earnings, providing required reserves for growth, costs of replacing obsolete facilities, taxation of patronage refunds, ability to serve the needs of large farmers, ability to retain net savings for needed capital and still pay dividends on equities, obtaining sufficient size to effectively serve members, and ability to conduct better member relations and determine members' needs."

Generally, problems expected in the coming year were about the same as those listed for the next 5 years.

Summary and Suggestions

Findings are summarized under six major areas. No attempt was made to list them in order of importance.

Characteristics of the Cooperatives

The 100 predominantly farm supply cooperatives in this study had average supply sales of about $3.4 million in 1974—180 percent more than 1964.

Ninety percent sold general supplies, around 80 percent sold farm chemicals and fertilizer, 80 percent sold petroleum products, 74 percent sold feed, and 70 percent sold lawn and garden items.

Twenty-four of the 100 associations specialized in one product line, mainly petroleum, and were called Class I - specialized; 34 sold basic supplies such as feed, seed, and fertilizer, and were designated Class II - basic, and 42 handling a wide or diversified line of supplies were called Class III - diversified. Volume increased as diversification of supplies increased. From 1964 to 1974, sales by the 42 diversified cooperatives increased 221 percent, compared with 180 percent for the basic supply group, and 120 percent for the specialized group.

Thirty cooperatives, all in the basic and diversified groups, were marketing products in 1975. Their total marketing volume greatly exceeded their supply business, whereas it was less than supply sales in each of the cooperatives when they were first selected for the study.

Net margins of 84 of the cooperatives averaged 7.6 percent of total supply and marketing sales. They were highest, 8.3 percent, in the basic group, followed by 7.6 percent with diversified, and 6.5 percent in the specialized associations.

General Management

Planning

Noticeably fewer cooperatives engaged in long-range planning than in short-range planning, particularly the Class I specialized cooperatives. Methods reported for conducting long-range planning were not as definite. A majority of the three classes of cooperatives engaged in short-range planning, using some form of the budgeting process such as revolving equipment, sales projections, cash-flow analysis, and projection of costs and returns.

— Farm supply cooperatives should make every effort to develop formal 5-year plans designed to show where they plan to be at the end of this time and how the cooperatives will go about getting to this point. These 5-year plans should encompass desired sales volumes by product lines, market share by "profit" centers, facility expansion or renovation, financial needs and sources, and alternate uses of capital. These plans should be reviewed annually and updated as necessary.

— Annual budgets then should be used as guidelines for measuring current and past performance and for projecting departmental sales volumes.

Cooperative Objectives

Only 24 out of the 100 cooperatives had a formal, written set of objectives.

— Every farm supply cooperative manager and board of directors should reach agreement concerning various objectives of the business and establish goals as to current and future markets, sales volume, physical facilities, and products and services offered. These objectives should cover every aspect of the cooperative enterprise and be put into written form to serve as guidelines in directing the operations of the firm. Once written, however, they should be subject to change as conditions warrant.

Management and Board Relationships

Many managers felt an urgent need for their boards to become more aware of the cooperative's business operations and to show more interest in expanding the business.

— Obtaining a better understanding in this area should be a primary responsibility and qualification for every cooperative farm supply board member. A board possessing knowledge and understanding of the business will be better able to recognize the continuing need for improvements and changes in business management practices, and show a positive attitude toward sound proposals coming before it rather than an attitude of resistance to change.

Lack of communication between board and management was a frequently mentioned problem area.

— Clearly defined channels of communication must be kept open between the manager and his board to provide a meaningful two-way flow of information. Regularly scheduled meetings attended by all board members and the manager, interspersed with periodic reports covering pertinent operational matters, are basic to keeping avenues of communication open.

Personnel Management

The most frequently encountered labor management problem was obtaining qualified personnel. This implies that perhaps the training given employees is not as thorough as it should be.

— Attention to recruiting, on-job training, meetings, and schools become more important as cooperatives become larger and more diversified.

Sixty of the 100 farm supply cooperatives did not provide written job descriptions for their employees.

— Written job descriptions should be provided that define each employee's area of responsibility and clearly outline the work to be done. This will avoid confusion, especially during peak periods, and lead to more efficient day-to-day operations and better service to member patrons. Additionally, written job descriptions provide standards to enable management to properly evaluate employee performance, and they are effective in delineating authority and responsibility between the manager and his board of directors.

Thirty-five of the 100 cooperatives reported that managers do not hold meetings with their employees on a regular basis to determine job satisfaction, personal problems, labor productivity, etc. Also, numerous employees in the cooperatives visited for management audits felt out of touch with what was really going on in their cooperative.

— Regular employee meetings should provide the communication necessary to make the employee's job more meaningful and satisfying and more productive to the cooperative.

Relationships With Regional Cooperatives

Twenty-five percent of the cooperative managers were dissatisfied with wholesale prices charged for merchandise—especially hardware and general supplies—by their regional cooperative suppliers. Noticeably fewer of the diversified Class III cooperatives were dissatisfied in these areas (10 percent as opposed to 35 percent of the Class II cooperatives and 41 percent of the Class I cooperatives). Many of these managers stated they were losing sales to retail discount competitors operating in their market area.

— Although pricing by the local and regional cooperative was beyond the scope of this report, the diversified cooperatives may have had fewer complaints because of their larger volume of general supplies and access to more volume discounts.

Seventeen percent of the cooperatives were dissatisfied with the timeliness of servicing orders by their regionals. Complaints stem from a twofold problem: On the one hand the local farm supply cooperative uses the warehouse facilities of its regional for keeping inventories of some items on hand due to lack of local storage space; and on the other hand, the regional is forced to service smaller orders more frequently.

— Local cooperatives may have to increase warehouse facilities to store a product mix that will adequately serve the cooperative patrons for known periods of time. This not only will enable the local manager to order larger quantities on a more systematic basis but also allow the regional to achieve greater distribution efficiency and lower costs.

Seventeen percent of the local cooperative managers were dissatisfied with the assistance provided by their regionals to help them merchandise supplies. This dissatisfaction was noticeably less evident for managers of the more diversified cooperatives. Perhaps the regionals are devoting more merchandising assistance to the locals handling a wider variety of their products or such locals have more competent employees who do not require assistance.

— Special attention by the regional's field staffs should correct this situation as they are in a position to give merchandising assistance to all their locals in terms of product knowledge and effective methods of promoting and selling products.

Product Lines and Services

Thirty-eight percent of the 100 cooperatives were currently handling some product lines and performing certain services that they had not handled or performed during the previous 3 years. Six new product lines were mentioned more often than others: fertilizer, pet supplies, small hardware items, garden seeds, and petroleum products. All three classes of cooperatives mentioned fertilizer and chemical application more often than any other new service being performed.

— Numerous opportunities appear to exist for many of the other 62 local farm supply cooperatives to handle a more diversified line of supplies. Also opportunities may exist for many cooperatives to offer their farmer members additional custom, leasing, and management services. The most frequently mentioned services include: Custom fertilizer and chemical application; leasing fertilizer and chemical applicators and bulk feed tanks; bookkeeping, farm management, and feed and chemical management.

Finance and Credit

Operating Capital

The majority of the cooperatives borrowed operating capital in fiscal 1973 and 1975. Interest rates paid had more effect on the more diversified Class III cooperatives than on the other two groups in limiting or postponing expansion of physical facilities.

— Careful attention by the boards and managers should be given to planning for source of funds for operations and facility expansion. This includes the cost of borrowed versus equity capital and the prospective amounts that can be raised from members.

Accounts Receivable

Although 96 percent of the cooperatives indicated they have a formal credit policy with 95 percent having this policy in written form, average age for accounts receivable was highest—50 days—for the Class III cooperatives. Thirty-eight percent of all cooperatives said the average age of their accounts receivable was greater in 1974 than in the previous year.

— Every effort should be made to adhere as closely as possible to 30-day credit extensions, followed by strict collection practices.

Merchandising

Advertising

The media preferred by all three classes of cooperatives to advertise general farm supplies were radio and newspapers. The more diversified Class III cooperatives employ a greater variety of advertising media that include the following, in order of frequency mentioned: direct mail, magazines, statement stuffers, TV spot ads, and billboards.

— The Class I and III cooperatives should be taking more advantage of the less costly forms of advertising such as statement stuffers, direct mail, and in-house displays to sell more of their products.

Product Promotion

Various promotional efforts, in addition to advertising, are currently employed by the cooperatives to merchandise products handled. In most cases, these promotional

efforts are dictated by the type of merchandise to be sold, with some overlap of methods occurring across product lines.

— The following promotional efforts were considered basic in developing merchandising strategies for the following major lines of supplies:

General supplies—Self-service retail store with related products grouped and individually price marked; seasonal sales; a prominent sign delineating the retail store from other buildings; appropriate window displays; retail store layout designed to give patrons maximum exposure to products displayed; adequate warehouse inventories to keep out-of-stocks to a minimum.

Petroleum products—Full service station with related sales of tires, batteries, and accessories; complete line of petroleum products prominently displayed; farm delivery service of petroleum with addition of an on-farm tire service in some locals.

Fertilizer—Complete line of bag and bulk fertilizer for serving market areas; farm delivery and customer pickup services; soil testing service; custom spreading and blending services; proper warehouse storage and stacking of bagged fertilizer to facilitate efficient incoming and outgoing seasonal movements; quantity discounts.

Feed—Complete line of bag and bulk feed for market area served; farm delivery and customer pickup services; mixing and custom blending services; proper warehouse storage and stacking of bagged feed to facilitate efficient incoming and outgoing movement; quantity discounts.

Lawn and garden supplies—Separate, well-defined area within the retail sales area to promote these products; groupings of related product lines with items individually price marked; seasonal sales promotions; seasonal outdoor product display area.

— All 100 cooperative managers stated that on-the-farm salesmen and good service were the two most important factors in promoting the sales of farm supplies.

— All the managers said that price competition from discount stores and lack of adequate physical facilities were the two most important factors hampering sales of more products.

Physical Facilities

Facility Modernization

The cooperatives have operated in their present location an average of 33 years; 59 percent have renovated or expanded existing facilities but only 16 percent have moved to new facilities within the past 5 years. Forty-six percent are currently housed in facilities in need of substantial repair or replacement.

— The need for renovation and construction of new facilities was evident in many of the local farm supply cooperatives and should be incorporated in long-range plans.

Planning for New Facilities

Within the next 5 years, according to the managers, they expect to do more new construction of retail stores, bulk fertilizer plants, warehouses, and grain storage facilities.

— When planning new facilities, particularly warehouses and retail stores, careful attention must be given to the layout to guard against any restriction on work methods and flow of merchandise in warehouses and customer traffic flow in retail stores.

— Supply cooperatives storing primarily bagged feed and fertilizer should provide adequate aisle widths to allow passage of all materials handling equipment used,

especially counterbalanced forklift trucks that require aisles 7 feet wide.

— The more diversified Class III cooperatives could achieve a higher degree of warehouse operating efficiency if the merchandise is separated into related product lines and sizes and stored within designated areas. A specific set of work methods, materials handling equipment, and layout should be developed for each area. Placing the faster moving items in locations that minimize the travel time involved in receiving and shipping is a necessary requirement.

— The warehouse design also should provide for future building additions that will not materially affect the operating efficiency of the initial layout.

Many cooperative farm supply stores, supposedly designed for self-service, are in reality service areas with merchandise on display which is largely ignored by the customers.

— The layout of the retail store operation of a local farm supply cooperative, especially those located in areas of rapid urban growth, is very important relative to achieving maximum customer exposure to the merchandise displayed.

— Traffic-flow studies can be taken by any farm supply cooperative to determine those areas within the retail store getting maximum customer exposure as well as those getting minimal exposure. Corrective action can then be taken to balance exposure more completely if necessary. The procedure for making such a study follows: (1) A diagram of the entire retail sales area is made showing the location of all merchandise displays. Copies of this diagram are made. (2) These diagrams are used to trace individual customer paths through the sales area from the time they enter the store until they leave. At least 20 individual customer observations should be made at random intervals without the customers' knowledge that the study is being conducted. (3) Each customer's path is then transferred to one composite diagram of the retail sales area. If the cooperative's customers are not thoroughly shopping the store, a definite pattern will emerge from the composite that allows the manager to consider rearrangement of merchandise locations to better direct customer traffic flow.

Branch Facilities

Sixty-eight of the 100 cooperatives operate a total of 229 branch facilities, an average of 3.3 per association. Their average age was more than 19 years. Branch facilities operated by the Class I cooperatives had the highest average age of nearly 27 years. The greater number of branch facilities operated by the cooperatives include the following: Class I — bulk fertilizer plants and service stations; Class II — dry fertilizer plants, bulk petroleum plants, retail stores, and service stations; and Class III — retail stores, bulk fertilizer plants, feed mills, bulk petroleum plants, and grain elevators.

— More modernization of old branch facilities and construction of new ones in some cooperatives needs to take place. In planning future growth, the remaining 32 cooperatives may wish to consider acquisition of branches as one alternative.

Government Regulations

Government regulations dealing with labor, health, and safety are of concern to many cooperatives and may require considerable financial outlays to comply.

— Many of the cooperatives need to plan ahead to meet future Federal, State, and local regulations affecting the operation of their facilities. By keeping abreast of the latest developments, the cooperatives will be in a better position to properly assess their individual situations.

Future Growth

Duplication of services and lack of coordination exist among some supply cooperatives, limiting their ability to take advantage of volume discounts and to operate at maximum efficiency.

The study brought out the following problem areas that are hampering the sustained growth of some local farm supply cooperatives andactions that might be taken to overcome them.

Merger Activity

In most cases, achieving greater size through merger will enable the cooperative to operate more efficiently and provide its members with better services and more competitive product prices.

— More mergers need to be consummated among local supply-handling cooperatives to eliminate overlapping market areas and consequent duplication of efforts in providing products and services.

Urbanization

Many local managers view encroaching urbanization as a threat to the existence of their cooperatives. In some cases, managers should view this change as an opportunity to expand their business into new areas, but too often managers and their boards have not geared their cooperatives to take advantage of such business.

— The opportunity and advantage of actively soliciting urban business exists. Product lines such as lawn and garden supplies, hardware, appliances, pet supplies, and tack can provide the cooperative with higher margins than many of the items currently being handled; in addition, farm supply cooperative managers have many years of accumulated knowledge and experience with many of these products to gain the confidence of the urban customer.

Working Capital

Having adequate working capital to carry on and expand the business is a problem with many local farm supply cooperative managers. A frequently mentioned cause was too many accounts receivable with high average ages.

— All cooperatives should have a written credit policy that is known to the membership and strictly adhered to. A successful, growing cooperative will make every effort to maintain a good line of credit with the district bank for cooperatives, local commercial banks, and the cooperative's suppliers.

Employee Productivity

Lack of employee productivity was a problem in a number of supply cooperatives.

— Many successful cooperatives find the following actions helpful in motivating employees: (1) Providing written job descriptions detailing all the responsibilities of each job category, and working closely with the employees in the beginning to ensure that job responsibilities are understood and properly carried out; (2) maintaining competitive pay scales for each job category, supplemented with incentive payment plans where productivity can be easily measured; (3) holding regular employee meetings to discuss problem areas, suggestions, cooperative goals and objectives, etc.; and (4) supplementing regularly scheduled meetings with an open door policy to discuss individual issues.

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